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INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

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TO SECSTATE WASHDC 6460

INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

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TAGS: ENRG, EFIN, EEC

SUBJECT: CONCERTED EC BORROWING ON INTERNATIONAL
CAPITAL MARKETS

REF: EC BRUSSELS 799

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1. SUMMARY. THE MISSION HAS OBTAINED IN STRICT CONFIDENCE

COPIES OF DISCUSSION PAPERS SUBMITTED TO THE EC MONETARY COMMITTEE BY THE EC COMMISSION AND BY FRANCE ON CONCERTED COMMUNITY BORROWING (REFTEL). THE PAPERS ARE SUMMARIZED BELOW. BOTH ARE BEING POUCHED TO EUR/RPE. THE COMMISSION PAPER CONCLUDES THAT SUCH BORROWING IS TECHNICALLY FEASIBLE AND SHOULD BE MANAGED BY THE EUROPEAN MONETARY COOPERATION FUND. THE PAPER ALSO ASKS WHETHER US INTERNAL MONETARY POLICY, AND ITS EFFECT ON US DOLLAR RATES ARE A LEGITIMATE CONCERN OF OTHER COUNTRIES. THE FRENCH PAPER PROPOSES, AMONG OTHER ALTERNATIVES, GROUPED BORROWINGS BY THE EC CENTRAL BANKS FROM THE CENTRAL BANKS OF THE OIL-PRODUCING COUNTRIES. WE UNDERSTAND THAT SOME MEMBER STATES WOULD STRONGLY PREFER COORDINATED BORROWINGS ON THE MARKET RATHER THAN DIRECT DEALINGS WITH CENTRAL BANKS OF OIL PRODUCERS. ACCORDING TO A PERM REP SOURCE, DISCUSSION OF COORDINATED EC BORROWING AND RELATED ISSUES MAY TAKE PLACE IN FUTURE RESTRICTED AND INFORMAL MEETINGS OF EC FINANCE MINISTERS OUTSIDE THE COUNCIL FRAMEWORK. OUR SOURCE'S COMMENTS DO NOT, OF COURSE, TAKE ACCOUNT OF WHATEVER CONSEQUENCES THE WASHINGTON ENERGY CONFERENCE MAY HAVE ON EC FINANCIAL COOPERATION. END SUMMARY.

2. BEGIN SUMMARY OF COMMISSION DOCUMENT

THERE IS AN ORDER OF IMMEDIACY FOR VARIOUS POSSIBLE BORROWING AS FOLLOWS:

- A. THE EURODOLLAR MARKET OR THE*US ITSELF;
- B. OTHER NATIONAL CURRENCIES;
- C. HYBRID CURRENCY VEHICLES OR NEW MONETARY UNITS.

FIRST PRIORITY SHOULD BE GIVEN TO THE DOLLAR AND EURODOLLAR MARKET.

3. THE LOGICAL COMMUNITY INSTITUTION FOR MARKET MANAGEMENT WOULD BE THE EUROPEAN MONETARY COOPERATION FUND. A MANAGEMENT COMMITTEE OF THE FUND -- IN CONJUNCTION WITH NATIONAL MONETARY AUTHORITIES -- COULD ESTABLISH TIMETABLES FOR INDIVIDUAL NATIONAL AUTHORITIES TO INSURE ORDERLY TAPPING OF THE MARKET. IN ADDITION TO NATIONAL GOVERNMENTS OR CORPORATE ENTITIES (PUBLIC OR PRIVATE), COMMUNITY FINANCIAL INSTITUTIONS SUCH AS THE FUND COULD ALSO BE ENVISAGED AS BORROWERS. THE GREAT MAJORITY OF ISSUES WOULD LIMITED OFFICIAL USE
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HAVE TO BE GUARANTEED IN SOME WAY BY THE MEMBER STATES.

4. MEMBER STATES SHOULD ABSTAIN FROM EUROCURRENCY BORROWING SINCE, ON THE ONE HAND, IT IS LARGELY IRRELEVANT TO THE RECYCLING ISSUE AND ON THE OTHER, SUCH ABSTENTION WOULD HELP TO DISTINGUISH BETWEEN INTERNAL EC MARKETS AND THOSE EXTERNAL TO THE COMMUNITY AS A WHOLE.

5. OTHER DENOMINATIONS (BESIDES THE DOLLAR) CAN BE ENVISAGED. THESE ARE:

- A. A PAR VALUE TYPE OF ACCOUNT;
- B. A BASKET OF CURRENCIES UNIT OF ACCOUNT OF THE
EURCO TYPE AND
- C. AN INTERNATIONAL UNIT OF ACCOUNT OF THE SDR
TYPE.

PENDING AGREEMENT ON A NEW UNIT OF ACCOUNT -- AND TO AVOID
PROLIFERATION OF CURRENCY VEHICLES -- THE USE OF THE
EXISTING EURCO INSTRUMENT WOULD BE DESIRABLE. SINCE A
COMPOSITE UNIT OF EUROPEAN CURRENCIES IS UNLIKELY TO BE AS
ATTRACTIVE AN INVESTMENT VEHICLE AS THE DOLLAR OR SDR TYPE
UNIT, THE COMMUNITY SHOULD PRESS FOR FINAL DEFINITION OF
THE SDR. THIS WOULD PROVIDE A REALISTIC ALTERNATIVE
DENOMINATION ALONG WITH THE DOLLAR.

6. VARIOUS FORMS OF INDEXATION COULD BE CONSIDERED, BUT
THE COMMUNITY SHOULD NOT TAKE ANY INITIATIVE ON THIS POINT
SINCE DISCUSSION OF IT WITH LENDERS WOULD BE DISADVANTAGEOUS
TO BORROWERS.

7. MARKET CONDITIONS WILL LARGELY DICTATE THE CHOICE OF
MATURITIES. REPAYMENT TERMS WILL HAVE TO BE WORKED OUT SO
AS TO HAVE THE LEAST UNFAVORABLE BALANCE OF PAYMENT EFFECT
ON BORROWERS. PAYMENT OF INTEREST SHOULD BE FREE OF TAXATION.
THE ORDERLY DEVELOPMENT OF A SECONDARY MARKET IN THE
COMMUNITY WILL BE AN IMPORTANT FACTOR IN THE TOTAL COST OF
BORROWING OVER THE LONGER TERM.

8. OTHER IMPORTANT ISSUES THAT MIGHT BE CONSIDERED ARE:
- A. SHOULD CONCENTRATED BORROWING BE EXTENDED BEYOND THE
COMMUNITY TO OECD COUNTRIES?
 - B. SHOULD CONCENTRATION EXTEND TO SUCH QUESTIONS AS:
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- (1) AGREEMENTS ON DENOMINATIONS -- PARTICULARLY AN
AGREED SDR TYPE UNIT;
 - (2) RESTRAINT OF COMPETITION ON TERMS OF BORROWING
(I.E., TAXATION, INTEREST RATES, EXCHANGE RATE
GUARANTEES OR OPTIONS, INDEXATION, ETC.);
 - (3) RESTRAINT OF COMPETITION WITH RESPECT TO
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9. THE FRENCH PAPER LISTS A NUMBER OF PROBLEMS TO BE SOLVED IN ESTABLISHING A EUROPEAN CHANNEL FOR RAISING CAPITAL FROM OIL-PRODUCING COUNTRIES. THE ISSUING ENTITY COULD BE EITHER THE EUROPEAN MONETARY COOPERATION FUND OR A GROUPING OF BORROWERS - ESSENTIALLY THE EC CENTRAL BANKS, THE SUBSCRIBERS ARE PRESUMED TO BE THE CENTRAL BANKS OF THE OIL-PRODUCING COUNTRIES.

10. THE PAPER EXAMINES QUESTIONS RELATED TO MATURITIES, GUARANTEES, AMORTIZATION PERIODS, DENOMINATIONS, AND INDEXATION OF YIELDS. IN URGING CONSIDERATION OF DENOMINATIONS ON NON-IDEOLOGICAL GROUNDS, THAT IS, IN RELATION TO THE LIMITED OFFICIAL USE
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NEEDS OF THE MARKET, THE PAPER NOTES THAT MOST OIL IMPORTS WILL BE PAID FOR IN DOLLARS AND THAT THIS CURRENCY ENJOYS THE LARGEST CAPITAL MARKET. THE PAPER LEANS TOWARDS SOME KIND OF INDEXATION IN ORDER TO PROVIDE SECURITY TO LENDERS AS WELL AS AN INTEREST RATE BELOW THE MARKET. THERE WOULD BE NO TAXATION OR WITHHOLDING ON THE ISSUES. A SECONDARY MARKET IS CONSIDERED IMPORTANT.

1. COMMENT: ONE OF OUR CONTACTS HAS TOLD US THAT AT LEAST SOME OF THE EC MEMBER STATES -- SUCH AS THE UK AND THE FRG -- WOULD ALMOST CERTAINLY OPPOSE DIRECT DEALINGS BETWEEN THE CENTRAL BANKS OF BORROWERS AND LENDERS. THIS IS SO BECAUSE THE LATTER -- THAT IS, THE OIL-PRODUCING COUNTRIES -- WOULD

ENJOY SO STRONG A NEGOTIATION POSITION AS TO BE ABLE TO
DICTATE TERMS. THESE MEMBER STATES, THEREFORE, WOULD PREFER
TO BORROW ON EXISTING CAPITAL MARKETS WITH TERMS DETERMINED
BY MARKET FORCES.

12. A WELL-INFORMED PERM REP SOURCE TELLS US HE BELIEVES
THERE IS SUFFICIENT AWARENESS AMONG THE MEMBER STATES OF
THE NECESSITY FOR CONCERTED ACTION IN CAPITAL BORROWING
THAT THIS ISSUE COULD SERVE AS AN IMPETUS FOR QUIET,
INFORMAL COORDINATION OF MONETARY POLICIES (E.G., CREDIT,
INTEREST RATES, AND MONEY SUPPLY) WITHIN THE COMMUNITY.
ACCORDING TO THIS SOURCE, SUCH INFORMAL COORDINATION COULD
TAKE THE FORM OF MEETINGS OF FINANCE MINISTERS OUTSIDE THE
COUNCIL FRAMEWORK AND THEREFORE WITHOUT PUBLIC COMMITMENT
TO SPECIFIC POLICIES IN RESPONSE TO FORMAL PROPOSALS BY
THE EC COMMISSION. FOR EXAMPLE, THE FINANCE MINISTERS ARE
EXPECTED TO HAVE DINNER BY THEMSELVES ON THE EVENING OF
FEBRUARY 18 FOLLOWING THE EC COUNCIL (FINANCE) MEETING.
WE HAVE ALSO HEARD FROM SEVERAL CONTACTS THAT AN INFORMAL
MEETING OF EC FINANCE MINISTERS IS PLANNED IN THE HAGUE
LATE IN MARCH.

13. OUR SOURCE'S VIEWS, OF COURSE, DO NOT TAKE INTO
ACCOUNT ANY CONSEQUENCES THE WASHINGTON ENERGY CONFERENCE
MAY HAVE ON THE FUTURE COURSE OF EC FINANCIAL COOPERATION.
END COMMENT.
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